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SUBJECT: The Labor Shortage in the Pearl River Delta

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¶1. (U) SUMMARY: In the wake of the week-long lunar new year holiday, Guangdong's Pearl River Delta (PRD) businesses and governments are fretting about a labor shortage that has become more pronounced during the past few years. Migrant workers who left for the holiday are switching jobs, staying home, or traveling to other manufacturing centers such as the Yangzi River Delta, where wages are higher and working conditions better. The shortages are most acute for jobs that require technical and managerial skills and those in the lowest-paying industries, such as textiles. Despite government efforts, such as minimum wage hikes, the shortages will likely intensify as the PRD's demand for skilled professionals rises, other parts of the country industrialize and compete for labor, and the workforce ages. END SUMMARY

The Chinese New Year Migration

¶2. (U) Most PRD factories shut down for the week of the lunar new year holiday (February 17-24 in 2007) and many of the area's migrant workers return to their homes in China's interior provinces. PRD factory owners are concerned about the number of workers who are switching jobs when they return or not coming back at all. Migrant workers comprise 35 percent of Guangdong's work force, according to the All-China Federation of Trade Unions. Local newspapers and television stations have been running stories on the labor shortage and quoting factory owners who are having trouble filling their jobs. In one story, a Guangzhou garment factory owner lost two-thirds of his workforce and was recruiting workers directly from the city's railway and bus stations. In another, an electronics factory owner could fill only 700 of 1,000 openings, despite offering pay above the minimum wage.

Government Numbers Point to a Shortage

¶3. (U) The extent of the labor shortage is difficult to determine. Local PRD labor departments report that Guangdong is experiencing a shortfall of migrant workers for the third consecutive year; 60 percent of Guangdong employers were affected by shortages in 2006. The Guangzhou labor department reported the city has 1.2 job openings for every one job-seeker, while Guangdong authorities reported that the province only filled 4.8 million of the 7.3 million job vacancies in 2006. Compounding the problem is the fact that workers are changing their jobs more frequently as they seek out better pay and benefits. Guangdong labor officials expect the demand for skilled workers to increase by 20 percent this year and

the demand for unskilled workers to rise by 10 percent.

14. (U) The Guangdong Labor Department has stated, perhaps somewhat optimistically, that companies that pay well and provide good living and working conditions will have no trouble finding enough workers. They also announced that the number of migrant workers arriving in Guangdong after the holiday was up 8 percent over 2006 and 90 percent of workers in Guangzhou have returned to their jobs. This assertion was contradicted by an Italian company representative who said his firm has faced difficulties not only in attracting but also in retaining skilled workers, many of whom depart shortly after being trained by the firm. Loyalty to a firm is totally lacking, according to this representative, despite good pay and benefits which are well above minimum levels.

Vacancies: Not Across the Board

15. (U) Local government and industry concerns about a labor shortage seem to fly in the face of national pronouncements that China is not generating enough jobs. China's Labor and Social Security Minister Tian Chengping recently announced that China will have a shortfall of 10 million jobs by 2010. A closer look at the labor market shows, however, that the PRD's vacant jobs are at opposite ends of the labor spectrum: those that require specialized skills and those that require no skills and in which laborers' working conditions are poor. For the majority of jobs, which fall between these two extremes, there are generally enough workers to maintain Guangdong's strong economy, which has had almost 12 percent growth for the past 20 years and has the highest per-capita GDP in China.

An Evolving Economy

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16. (U) The shortage of workers to fill jobs in technical and managerial positions points to a gradual shift that is taking place in the PRD economy toward higher value-added and high-technology industries. Behind this shift are market forces, such as higher land and labor costs and an appreciating RMB, as well as government efforts to establish a long-term, sustainable economy. Two-thirds of Guangdong's manufacturing industry is process and assembly, almost all of which is for export, compared to 55 percent nationally, according to Huang Jingbo, Dean of Zhongshan University's Economics Department. Process and assembly factories have low profit margins, offer the lowest wages, and have very little technology transfer. This move away from low-end, process and assembly manufacturing accounts for the 20 percent increase in demand for skilled workers in the PRD in 2007 and has increased the burden on the region's universities and vocational schools to train enough professionals.

Foreign Companies Feel the Squeeze

17. (SBU) Foreign companies in the PRD, including those in the American Chamber of Commerce-South China, are clearly concerned about the lack of skilled managers and technicians. The shortage has led to higher turnover rates, unsustainable wage increases, and companies poaching talent from each other (see ref A). According to Mercer, managers can earn a 50 percent pay raise by switching companies and some managers in PRD-based firms are earning as much as their Hong Kong counterparts. According to an AmCham-South China survey that will be released on March 15, U.S. companies cite a lack of qualified managers and specialists as their second biggest concern overall, after regulatory issues. Rising labor costs ranks fourth. In an October 2006 AmCham-South China survey, the lack of skilled talent topped the list of human resource concerns.

The Unskilled Worker Shortage: Poor Conditions

18. (U) On the other end of the spectrum, PRD businesses with the lowest paying jobs and the poorest working conditions, such as those in the garment industry, are also facing a shortage. Most of these

factories are owned by domestic, Taiwan, or Hong Kong investors and operate on the thinnest of profit margins. They are being squeezed by rising labor, land, and energy costs as well as the appreciation of the RMB. Foreign-invested factories, which have a better reputation because of competitive pay packages and good working conditions, are, for the most part, finding enough unskilled workers. (Foreign subsidiaries are not without problems; PRD factories producing goods for Apple, Disney, and McDonald's made news in 2006 when media and labor groups exposed poor working conditions).

¶9. (U) Low-end factories are more likely to flout labor laws by paying less than the minimum wage, requiring overtime without compensation, and ignoring worker safety (ref B). The lack of effective trade unions and lax enforcement by labor bureaus means the situation has been slow to improve. As a result, the PRD has developed a reputation for poor working conditions and low pay and migrant laborers are choosing to go to other manufacturing centers instead, such as the Yangzi River Delta (YRD), where wages are higher and working conditions better.

Government Efforts to Attract Workers

¶10. (U) PRD governments have taken measures to alleviate the shortage. The Guangdong Labor Bureau offers labor rights training programs and legal aid centers in a number of PRD cities to improve conditions for migrant workers (ref C). The bureau is also pushing local governments to improve health care and educational opportunities for workers' families. In early 2006, Shenzhen became the first city in China to adopt a medical insurance system for migrant workers. Guangzhou's Labor Department remains understaffed, however, and reportedly plans to hire 100 new inspectors to ease the burden. To compensate, local governments rely on labor NGO's, both registered and unregistered, to provide assistance and training (ref D).

¶11. (U) Local governments are also rapidly hiking their minimum wages to attract workers. The average minimum wage increase in 2006 across the province was 17.8 percent - the highest to date. Guangzhou raised its minimum wage four times between 2000 and 2006, from 450 RMB (USD 58) per month to 780 RMB (USD 101). Shenzhen's minimum wage has been raised twice during the past two years and currently stands at RMB 810 (USD 101). The minimum wage in Dongguan, Zhuhai, Foshan, and Zhongshan is RMB 690 (USD 86). In addition to wage increases, Guangdong's labor bureau has urged local

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labor departments to organize more job fairs and offer job referral services.

An Aging Workforce

¶12. (U) Experts also point to the aging of China's workforce as a factor in the PRD's labor shortage and predict more pronounced shortages over the long term. Cai Feng, Director of the Chinese Academy of Social Science's Institute of Population and Labor Economics, said in February that China's labor supply is peaking, causing "a structural labor shortage" in some regions. The number of Chinese over 60 years old will increase from 143 million in 2004 to more than 200 million by 2014, according to government estimates.

Comment: Beyond the PRD

¶13. (SBU) Whereas PRD business owners once could rely on an unlimited supply of labor, they are now being forced to compete for workers with other regions of China. Skilled workers in the PRD have never been in a better position to negotiate their pay and benefit packages. Migrant laborers, who are increasingly well connected, are less willing to accept poor working conditions and more liable to switch jobs. As the work of NGO's and government labor bureaus expand and improve, low-end factories will be forced to leave - to inland China closer to migrant worker homes or abroad

- in greater numbers because of labor costs. Local governments are hopeful that, with the proximity of the PRD to ports and Hong Kong, high-tech factories will take their place.

¶14. (SBU) For those factories that are priced out of the PRD and move further inland, wage pressures will likely prove inescapable. Labor shortages and rising wages are already occurring north of the PRD in central Guangdong. The owner of a newly built factory that produces shoes for Nike in Qingyuan, which is two hours north of Guangzhou, told us that rising labor costs would likely force him to relocate again within five years. A 30,000-employee electronics factory down the road, which recently moved from Dongguan, has reportedly had trouble finding enough workers. This will likely force enterprises to relocate further inland, a move that will be encouraged by the rapid development of the better and more efficient transportation network that is being constructed under the 11th-Five Year Plan.

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